STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING Whether there has been a violation of the Securities Act of Washington by: MARK G. CRUDGE, Respondent.	SDO - 101 - 00 **AMENDED** SUMMARY ORDER SUSPENDING SECURITIES SALESPERSON REGISTRATION AND INVESTMENT ADVISER REPRESENTATIVE REGISTRATION Case No. 00-05-0174

THE STATE OF WASHINGTON TO: Mark G. Crudge

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondent, Mark G. Crudge, has engaged in dishonest and unethical practices in the securities business while employed as a registered securities salesperson and investment adviser representative for Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), and that those practices and violations justify the suspension and/or revocation of Respondent's securities salesperson's registration and investment adviser representative registration pursuant to RCW 21.20.110(1)(b) and (g). The Securities Administrator finds that delay in suspending and/or revoking the Respondent's salesperson registration and investment adviser representative registration would be hazardous to the public interest and is necessary or appropriate for the protection of investors and that a Summary Order should be entered immediately. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

I. Respondent

1. **MARK G. CRUDGE** ("Crudge") has been registered with the State of Washington as a securities salesperson and investment adviser representative since 1990. Crudge was employed as a securities salesperson and investment adviser representative with Dean Witter Reynolds, Inc. ("Dean Witter") from May of 1990 until May of 1996. Crudge was then employed as a securities salesperson and investment adviser representative for Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") at their Tacoma office from May 3,1996 until his resignation on April 19, 2000. Crudge was again employed with Dean Witter from April 19, 2000 until his termination on June 22, 2000. Crudge is not currently associated with a broker-dealer or investment adviser.

II. Nature of Crudge's Conduct

A. Background

2. From at least September of 1999 until his resignation in April of 2000, Mark Crudge engaged in business practices that adversely impacted the accounts of at least 25 Merrill Lynch customers. Crudge's pattern of conduct included excessive trading, making unsuitable investment recommendations, executing unauthorized transactions, and recommending purchases of securities on margin that greatly exceeded the capability of his customers to pay for those purchases. Several customers sustained significant losses in their accounts due to changes in the value of securities that Crudge had either recommended or had purchased without authorization.

B. Summary

Excessive Trading

3. Crudge induced trading in many customer accounts that was excessive in light of the financial resources of those customers and the character of their accounts. One indicator of excessive trading is the turnover rate of an account, which reflects the number of times during a given period that the securities in an

account are replaced by new securities. The turnover rate is calculated by dividing the total dollar amount of securities purchases for a given period by the average monthly capital investment in the account. Courts generally find excessive trading to exist when the turnover rate in an account is in excess of six. The turnover rates in many of Crudge's customer accounts are highly indicative of excessive trading.

Suitability

4. Crudge's trading recommendations to several customers deviated grossly from their investment objectives and financial backgrounds.

Unauthorized Trading

5. Crudge had no authority to make trades in any customer accounts without prior authorization. Despite this, Crudge executed a large number of trades in several accounts without getting approval from customers.

Recommending Purchases Beyond Customer Capability

6. Crudge purchased securities on margin in several customer accounts that caused the accounts to be put in excessive margin positions. Many customers had no understanding of the implications of margin trading or that, in fact, such trading was occurring in their accounts. Margin trading puts customers at the risk of losing more than the amount invested if the value of the securities depreciate sufficiently and give rise to margin calls in the account. Many customers received margin calls from Merrill Lynch that resulted in major financial losses. Given the level of experience, net worth, and stated investment objectives of Crudge's customers, Crudge's substantial reliance on margin trading in their accounts was unjustified.

C. Customers

7. The Division's investigation has revealed several complaints made to Merrill Lynch with respect to the conduct of Mark Crudge that is summarized above. The following paragraphs provide representative examples of Crudge's business practices with respect to five Merrill Lynch customers, and do not capture the totality of the conduct that is the subject of this Order.

“Customer A”

8. Crudge became Customer A’s account representative in September of 1999. From January 2000 until April 2000, one of Customer A’s accounts with Merrill Lynch had a total turnover rate of 11.68. This quantity of trading was inconsistent with Customer A’s investment objectives and financial situation. Customer A’s investment objectives were long term. A high school graduate, Customer A had very little experience in the stock market. He and his wife have a modest income and did not want to be overly aggressive with their Merrill Lynch accounts. Immediately upon gaining control of Customer A’s accounts, Crudge began to make unauthorized purchases of securities. Between September of 1999 and April of 2000, most of the securities Crudge purchased in Customer A’s accounts were unauthorized. Examining February of 2000 alone, Crudge purchased over 1.4 million dollars worth of securities in one of Customer A’s accounts. During the time that Crudge managed Customer A’s accounts, he pursued a high risk trading strategy, reflected by the fact that by March of 2000, almost 90% of Customer A’s holdings were in technology securities. Crudge also margined the account heavily, even though Crudge had never discussed margin trading with Customer A.

9. Customer A was very concerned about Crudge’s actions and asked him where the money was coming from to purchase these stocks. Crudge told Customer A not to worry and promised to make him a millionaire. By March of 2000, the margin debit balance in one of Customer A’s accounts was $317,130, while the market value of the account was only $506,666. During Crudge’s management of this account, its net portfolio value fell from approximately $263,000 in September of 1999 to a deficit of -$12,039 in April of 2000.

“Customer B”

10. Crudge became Customer B’s account representative in January of 2000. One of Customer B’s accounts with Merrill Lynch had a total turnover rate of 9.17 from February of 2000 to April of 2000. This quantity of trading was inconsistent with Customer B’s investment objectives and her financial situation. Customer B's disability payments are her sole source of income and her investment objectives were therefore long term. Customer B wanted to establish two accounts. One was to be a long term holding account that was not to be traded

or margined, and she wanted to purchase only “brick and mortar” stocks in the other account. Crudge never set up a holding account per Customer B’s instructions. Instead, immediately after gaining control of Customer B’s accounts, Crudge began to make unauthorized purchases of securities. In one account, Crudge purchased over 2.1 million dollars worth of securities in February and March of 2000. The majority of these purchases were unauthorized. Crudge also traded heavily on margin in two of Customer B’s accounts without her approval. Due to Crudge’s margin trading in the account during this short time period, Customer B paid $5,831.23 in margin interest charges.

11. Customer B tried to discuss the situation with Crudge numerous times, constantly urging him to consult her before making trades. Despite these discussions, Crudge continued to purchase securities without authorization. By February of 2000, the margin debit balance in one of Customer B’s accounts was over $1,000,000. The account’s net portfolio value was a deficit of -$47,327. During the time he managed Customer B’s accounts Crudge pursued a high risk trading strategy, reflected by the fact that by March of 2000, 100% of Customer B’s holdings were in technology securities. In April of 2000, Customer B received a margin call in that account from Merrill Lynch. She was forced to liquidate most of her securities holdings to meet the margin call and sustained a serious financial loss.

“Customer C”

12. Crudge became Customer C’s account representative in January of 2000. At that time, Customer C was 26 years old and had no investing experience. Customer C had received a settlement due to a work injury, could no longer work, and was looking to invest his money prudently. Customer C’s investment goal was the maintenance of a livable monthly income for his family. Immediately upon gaining control of the account, Crudge began to purchase securities without Customer C’s authorization. From January to April of 2000, Crudge made approximately 43 purchases of securities in one of Customer C’s accounts. The majority of these purchases were unauthorized. Crudge also purchased many of these securities on margin without getting approval from Customer C to execute margin trades. Customer C was not aware that his account was being margined and had never

discussed the risks of margin trading with Crudge. During the time Crudge managed Customer C's accounts, he pursued a high risk trading strategy, reflected by the fact that by March of 2000, 80% of Customer C's holdings were in technology securities.

13. Customer C tried to speak with Crudge upon learning about what was occurring in his account, specifically mentioning his dissatisfaction with the margin trading that was being done in his account. Crudge told him that margin trading was the smart thing to do and he continued to purchase securities on margin without getting Customer C's approval. Crudge continually increased the margin debt in Customer C's account. By April of 2000, the margin debit balance was $131,284. During the time Crudge managed Customer C's account, its net portfolio value fell from $189,622 in February of 2000 to $131,284 in April of 2000.

"Customer D"

14. Crudge became Customer D's account representative in February of 2000. In March and April of 2000, Crudge purchased securities in the accounts of Customer D without authorization. Customer D was not aware that any trades had been made until he received confirmation notices in the mail from Merrill Lynch. In fact, Customer D had not spoken with Crudge since he opened his Merrill Lynch accounts in February.

15. Crudge also made several purchases on margin in Customer D's account without getting authorization to execute margin trades. Customer D had no experience with margin trading, had never discussed margin trading with Crudge, was not aware of its risks, and did not authorize margin trades to be made in his account. As a result of margin purchases made by Crudge, the margin debit balance in Customer D's account in March of 2000 was $246,992, representing almost two-thirds of the account's market value of $379,536. In April of 2000, Customer D received a margin call from Merrill Lynch and was forced to liquidate most of his holdings to meet this call.

"Customer E"

16. Crudge became Customer E's account representative in approximately August of 1999. Customer E's investment objectives were long term as he was interested in financing his children's education and his own

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

retirement. Customer E has a modest annual income of around $50,000. He was comfortable with limited margin trading but did not want to overextend his margin debt. When Crudge became Customer E's account representative in August of 1999, the margin debt in Customer E's account was approximately $30,000. Crudge immediately began purchasing large amounts of securities on margin. As he continued to increase the margin debt in Customer E's account, Crudge never discussed the heightened risks of such a strategy with Customer E. By March of 2000, the margin debt balance in Customer E's account was $376,038, while the market value of the account was only $659,832.

17. Customer E complained to Crudge about the margin debt and asked that Crudge sell some of his securities. Crudge refused to sell any securities and repeatedly told Customer E not to worry about the margin debt. In April of 2000, Customer E received a margin call from Merrill Lynch. He was forced to liquidate most of his holdings to meet the call and sustained a significant financial loss.

EMERGENCY

18. The Securities Administrator finds that an emergency exists because Respondent knowingly and intentionally engages in unethical sales practices by engaging in excessive trading in customer accounts, by making unsuitable recommendations to customers, by making trades without customer knowledge, and by recommending purchases of securities that exceed the capability of customers to pay for those purchases; and that such conduct presents an immediate danger to the safety and welfare of the investing public, and is likely to continue to do so.

Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

CONCLUSIONS OF LAW

I. Excessive Trading

19. Crudge, as described above, engaged in one or more dishonest or unethical practices in the securities business, as defined by WAC 460-22B-090(6), by inducing trades in customer accounts that were

excessive in size and frequency in view of the financial resources and character of the accounts. Such practice is grounds for the suspension or revocation of his salesperson registration and investment adviser representative registration pursuant to RCW 21.20.110(1)(g).

II. Suitability

20. Crudge, as described above, engaged in one or more dishonest or unethical practices in the securities business, as defined by WAC 460-22B-090(7), by recommending to customers the purchase and sale of securities without reasonable grounds to believe that such transactions were suitable for those customers. Such practice is grounds for the suspension or revocation of his salesperson registration and investment adviser representative registration pursuant to RCW 21.20.110(1)(g).

III. Unauthorized Trades

21. Crudge, as described above, engaged in one or more dishonest or unethical practices in the securities business, as defined by WAC 460-22B-090(8), by executing transactions on behalf of customers without authorization to do so. Such practice is grounds for the suspension or revocation of his salesperson registration and investment adviser representative registration pursuant to RCW 21.20.110(1)(g).

IV. Recommendations Beyond Customer Capability

22. Crudge engaged in one or more dishonest or unethical practices in the securities business, as defined by WAC 460-22B-090(19), by failing to comply with a provision of the National Association of Securities Dealers, Inc. (NASD) Conduct Rules. Crudge, as described above, violated NASD Conduct Rule IM-2310-2 (Fair Dealing with Customers), by recommending the purchase of securities or the continuing purchase of securities in amounts which were inconsistent with the reasonable expectation that his customers had the financial ability to meet such a commitment. Such practice is grounds for the suspension or revocation of his salesperson registration and investment adviser representative registration pursuant to RCW 21.20.110(1)(g).

V. Anti-Fraud Provisions

23. Crudge, as described above, in connection with the offer and sale of securities, made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, in violation of RCW 21.20.010(2). Such practice is grounds for the suspension or revocation of his salesperson registration and investment adviser representative registration pursuant to RCW 21.20.110(1)(b).

24. Crudge, as described above, in connection with the offer and sale of securities, engaged in acts, practices or courses of business which operate or would operate as a fraud or deceit upon any person, in violation of RCW 21.20.010(3). Such practice is grounds for the suspension or revocation of his salesperson registration and investment adviser representative registration pursuant to RCW 21.20.110(1)(b).

SUMMARY ORDER

Based upon the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY ORDERED that the salesperson registration and investment adviser representative registration of Mark G. Crudge, be, and hereby is, summarily suspended pending a final determination in this proceeding.

AUTHORITY AND PROCEDURE

This SUMMARY ORDER is entered pursuant to the provisions of RCW 21.20.110 and is subject to the provisions of RCW 21.20.120 and Chapter 34.05 RCW. The respondent, Mark G. Crudge, may make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this order. If Mr. Crudge does not request a hearing in this matter, the Securities Administrator will, based on the foregoing Findings of Fact and Conclusions of Law, enter an order revoking Mr. Crudge's securities salesperson registration and investment adviser representative registration.

CONTINUING INVESTIGATION

The Securities Division is continuing to investigate the practices of the Respondent to determine the full extent of the violations of the Securities Act that have occurred in this matter.

DATED this 1st day of November , 2000.

Deborah R Bortner

DEBORAH R. BORTNER
Securities Administrator

Approved by:

Michael E. Stevenson
Chief of Compliance

Presented by:

Chad Standifer
Staff Attorney